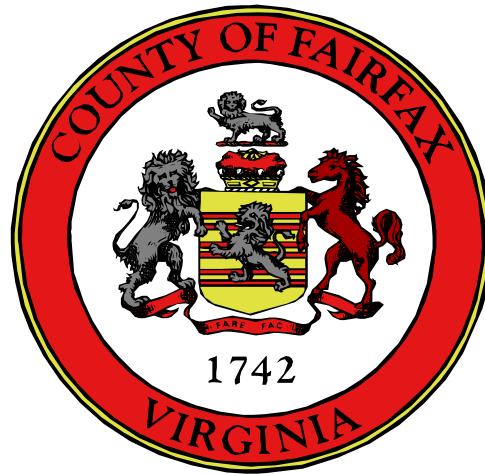


INTERNAL AUDIT REPORT

FAMIS Vendor File



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: September 28, 2000

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the *“FAMIS Vendor File”*

This is a report on the *“FAMIS Vendor File”*. It was performed as part of our FY2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Finance, Department of Purchasing and Supply Management, and Department of Housing and Community Development. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

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Introduction

Department of Finance (DOF) maintains the vendor master file in the County's Financial Accounting & Management Information System (FAMIS) 4.2 version. There are approximately 298,000 vendor records in FAMIS of which 99 % are active vendors. Less than 1 % of the vendors are inactive. In FY 2000 between July 1999 and February 2000, there were over 220,000 transactions generating a total payment to vendors exceeding \$360 million. This represents an average of 3,000 transactions and \$5 million paid to the vendors by each County department during the same period.

A vendor file contains information about individuals and companies doing business with the County. The County relies on the integrity of the vendor file to: 1) remit payments to the proper vendor address, 2) remit benefit and travel allowances to County employees, 3) obtain vendor financial information, 4) meet vendor reporting requirements for internal and external organizations, and 5) to notify interested vendors about future bids. In order to meet the County's needs, an appropriate system maintenance process should be in place to safeguard against unauthorized user access that promotes accurate, complete, and up-to-date vendor information. With the exception of the Housing Department, DOF requires all departments including FCPS route their vendor documents to DOF for final approval. Vendor processing has been decentralized to allow departments to enter vendor number, name, and address information in FAMIS.

The effective management of the vendor file should include appropriate separation of duties that restricts individuals from performing incompatible functions or functions beyond their responsibility; appropriate reviews and approvals of transactions, accounting entries, or systems output; appropriate system access control for users to perform their duties; and appropriate administration of IRS forms (W8, W9, and etc.), backup withholding, and 1099 reporting.

The specific risks associated with these controls are unauthorized access and changes to sensitive vendor information, incorrect, duplicate, or fraudulent payments, inaccurate financial or management reporting, and non-compliance to IRS rules and regulations. In order to minimize these risks, the following controls should include:

- reviewing system access profiles to correspond with existing and changing individual responsibilities;
- reviewing the procedures used to update the vendor master file;
- identifying and accounting for the source documents used to add, change, and delete vendor records;
- ensuring that procedural manuals are kept current;
- conducting periodic review of staff compliance to these guidelines; and
- ensuring that there are sufficient vendor reports for the users, system sponsors; and management to include audit trail report of vendor master file changes

Purpose and Scope

This audit was performed as part of our FY 2000 long-range Audit Plan. Vendor file is a key payment control in FAMIS that identifies organizations and individuals authorized to receive payment from the County. Our audit objective was to determine the reliability and accuracy of the County's vendor file by reviewing internal controls over the vendor additions, changes to existing vendors' name, address, and payment status, and vendor deletions. Steps were taken to review individuals involved in the vendor process for proper separation of duties and appropriate level of system access.

We included samples of Departments to determine their compliance to DOF vendor guidelines. We also conducted a survey of the County departments' user satisfaction with the vendor process.

We selected a sample of five County departments to evaluate their compliance with DOF guidelines (OFN 019-1 and ATB 033). We selected departments with medium and large operations as follows:

- Department of Purchasing & Supply Management
- Department of Housing
- Fairfax County Park Authority
- Department of Tax Administration
- Department of Human Resources

The audit period covers November 1997 (FAMIS 4.2 implementation date) through February 2000. The benefits of this audit include stronger controls, improved performance, and to inform management on the adequacy of the vendor file. This audit was performed in accordance with the generally accepted government auditing standards and the Government Accounting Office Federal Information System Controls Manual (January 1999).

Executive Summary

In our opinion, the County's vendor processing and administration requirements meet the internal control standards of the U.S. GAO Standards for Internal Controls and the GAO Federal Information Systems Control Manual except for the following areas:

- DOF has individuals performing incompatible duties, specifically in accounts payable and vendor functions. In addition, DOF guidance on vendor issues (i.e. Accounting Technical Bulletins and Office Notice) require minor up-dates and re-distribution to the departments
- The County's expenditure codes (subobject codes) drive the 1099 reporting to vendors. Some of the subobject codes in the FAMIS tables are not coded properly to allow for complete and accurate 1099 reporting to vendors and the IRS. Whenever these subobject codes are used by the County departments to make payments, the information is not accurately accumulated for 1099 reporting purposes
- There is no vendor purge process in place to maintain and manage the vendor file. There are vendors that need to be purged periodically based on pre-defined criteria to promote efficient vendor processing
- Documentation to describe the duties, functions, and the responsibilities of the System Administrators is not sufficient. DOF needs to complete the document to guide their System Administrators in performing their duties in an effective and efficient manner

During our examination of the five departments selected for their compliance to the DOF guidelines, minor deficiencies in record keeping, vendor processing steps, and the absence or outdated internal procedures were discussed and resolved with the departments. Two departments (Department of Purchasing & Supply Management and Department of Housing and Community Development) received separate recommendations. A survey of the County departments showed that approximately 70% of the respondents were pleased with DOF's service in the vendor area. The remaining 30% suggested improvements such as quicker response time in emergency situations, notifying departments before changing vendors to inactive status, vendor addresses should not be changed while there is an open (pending) document, and the DOF guidelines should be updated. Recommendations to improve vendor maintenance, updating guidelines, and safeguarding vendor information through basic business practices are addressed to DOF.

Comments and Recommendations

Department of Finance (DOF) Recommendations (Items 1 through 7)

1. Backup FAMIS Vendor Clerks have excessive system access to authorize invoice payments and change vendor information that violate the separation of duties principle.

The two backup Vendor Clerks have the system capability to initiate invoices, approve invoices for payment, and change vendor addresses. During this audit, DOF took corrective measures to modify their system access. The primary duty of one of the backups is authorizing Departments' invoices for payment. This person currently works in the Accounts Payable Office. Both of the backups have changed vendor addresses and continue to do so in the absence of the primary Vendor Clerk. An individual acting alone should not be permitted to complete a transaction event. The same individual should not be allowed to pay invoices and change vendor information without appropriate supervisory approval or compensating controls.

Failure to maintain appropriate separation of duties increases the risk of errors, waste, and unauthorized payments to be generated. In an effort to have sufficient backup coverage to change vendor information, the system access has been assigned without regard to incompatible duties.

Recommendation

DOF should restrict the number of people who perform vendor-processing duties in the absence of the primary Vendor Clerk. There are two backup Vendor Clerks. One of the backup Vendor Clerks who works in the Accounts Payable Office should not perform vendor duties at all. This person's system access (Document Approval Type) should be modified to prevent the ability to authorize vendor number, name, and address information. The other backup Vendor Clerk's system access should be restricted from processing financial documents.

Department Response

As stated in the finding, the DOF had already corrected this situation during the audit.

2. DOF's primary Vendor Clerk authorizes vendor additions and changes from the departments without supervisory approval.

The DOF Vendor Clerk has the system access level of 500 to approve all department generated vendors with exception to the Housing department where they approve their own vendor documents. On occasion, the DOF Vendor Clerk has initiated and approved vendors for DOF. There is no requirement for supervisory approval either through online routing or a periodic review of a daily vendor report.

One individual should not initiate and authorize a vendor document without further supervisory approval. An individual who has the ability to add and change the vendor master file without supervisory approval may be able to create or modify a vendor without the appropriate source document (e.g. W8, W9, County's substitute form, change of address request, etc.) required for administrative filing and audit purposes. This may also cause a vendor's check to be sent to an

incorrect address if there are open documents in FAMIS awaiting approval. There was no further evaluation to determine the potential control weakness of the Vendor Clerk's ability to initiate and authorize a document without additional approval or review.

Recommendation

DOF should require weekly supervisory reviews of the primary Vendor Clerk's authorization of departments' vendor setup by reviewing an existing daily vendor change report against the source document (i.e. original W9s, notepad from the department Vendor Clerks requesting change of vendor address, etc.). It is preferable to have an online routing process for supervisory approval; however, the current FAMIS may not allow this at the user level. The routing approval takes place at the department level in FAMIS. In addition, new vendors established or modified for DOF business purposes should have one person initiate and another person authorize.

Alternatively, DOF may elect to decentralize the vendor process completely by allowing departments to have the final vendor approval authority similar to the Housing Department. DOF guidelines should reflect this change accordingly. In addition, the primary Vendor Clerk in DOF may continue to respond to vendor questions and / or review departments for vendor compliance.

Department Response

DOF is already reviewing the report of vendor changes and will now add the additional step of comparing source documents to the change report.

3. Some of the financial expenditure codes (subobject codes setup in the FAMIS tables) are not setup to allow for complete and accurate 1099 reporting to vendors and the IRS.

1099 reporting to vendors are driven by the County's subobject code. A subobject code is a four-digit code that identifies a particular transaction as either a revenue or an expenditure. DOF has a policy to flag all individuals for 1099 reporting in the vendor table; however, some subobject codes are not updated in the subobject code table (FAML 5200) to ensure 1099 reporting to vendors. In order for the vendors to receive their 1099s, the subobject code table must be updated on an on-going basis by the County and the Fairfax County Public Schools (FCPS). It is a requirement in FAMIS to setup both the vendor and the subobject code tables to send 1099 forms to the vendors.

The County and the FCPS will not be able to meet the IRS guidelines for sending the 1099 reporting to some of the qualifying vendors. Meeting the 1099 reporting requirement is an on-going maintenance issue to update the FAMIS vendor and the subobject tables. It requires the DOF to stay abreast of changes to the IRS regulations.

Recommendation

DOF should take the lead with the County departments to review all subobject codes that should be updated for the 1099 reporting and 1099 type fields in FAMIS. This may be accomplished through assistance from a consultant. DOF should also review the subobject codes with the FCPS. This is due to the fact that DOF is currently responsible for submitting FCPS's 1099s.

Department Response

The Accounts Payable Manager in DOF will lead a project to review all subobject codes in consultation with key departments and with assistance from a consultant.

4. DOF does not have an automated process to periodically purge qualifying vendors (e.g. one-time vendors) to maintain and update the County's vendor file.

DOF stated that significant portion of their vendor maintenance preclude automatic purging. Once available, the automatic purging will be limited to the one-time vendors. Currently, FAMIS Systems Administrators are able to delete vendors on a case by case basis. According to Department of Information Technology (DIT), there is no purge module available in FAMIS. The recent upgrade of FAMIS 4.2 in March 2000 did not include this module. DIT has been working with the KPMG contractor to obtain this module for the last two years. However, DOF and FCPS are actively discussing the purge requirements for FAMIS as a whole with KPMG. DOF stated the vendor file storage requirement is nominal in comparison to the other FAMIS files. The purge module will be designed to purge vendors as well as other FAMIS records as necessary. The purge module, that requires a pre-defined criteria to be identified to work with FAMIS, County & Schools Procurement System (CASPS), and Housing's Loan Processing System (LPS) interfaces, should be used to purge qualifying vendors periodically.

The vendor master file should be purged based on a pre-defined criteria to promote efficient processing of vendors in FAMIS. DIT stated their storage space has increased substantially due to the recent FAMIS 4.2 upgrade. DIT is concerned about the increasing storage requirement for FAMIS files in general. Although the Administrative Steering Committee is aware of the importance of obtaining the purge processing module, DIT has not had much success in acquiring this module through KPMG, perhaps due to other priorities. This has been an on-going project among DOF, FCPS, DIT and KPMG.

Recommendation

DOF should continue to work with DIT and KPMG to install the purge processing module for FAMIS with a timeline for completion within the next fiscal year.

Department Response

The automated purge side is limited to such areas as one-time vendor numbers, which the County assigns to vendors receiving payments for certain transactions. These vendors would be deleted if the associated payments were made during the fiscal year being purged.

5. There is no comprehensive and up-to-date document to describe the duties, functions, and the responsibilities of FAMIS Systems Administrators.

Except for the FAMIS Systems Manual (Terminal Operators Guide) and the contractor's (KPMG) systems documentation, to describe system capabilities, there is no comprehensive in-house document that describes the responsibilities of the FAMIS Systems Administrators. Documentation is a necessary part of a large-scale application system that supports the overall control environment by ensuring appropriate safeguard of County data and security access to system files. Documentation is needed to outline the functional tasks performed by Systems Administrators and their backup administrators. This documentation should reflect the systems administration duties for FAMIS security and table maintenance.

In the absence of sufficient documentation, the knowledge of functional requirements for a Systems Administrator rests with the existing staff. In the absence of one or more Systems Administrators in DOF, there is no guideline to describe their responsibilities and how they are to be administered effectively. Extra steps may become necessary to determine how a particular system function works.

Within the last three years, DOF staff turnover in the systems administration area delayed the opportunity to develop the necessary documentation. Canceling documentation tasks to meet other job priorities is a common documentation shortfall.

Recommendation

DOF should work closely with Department of Information Technology Corporate Systems Training Division to obtain advice on the presentation and format of the documentation to be completed that describes the systems administration function for the FAMIS application.

Department Response

One of the FAMIS System Administrators has already begun the process to document key functions. Many of the processes and policies are already documented individually and are currently being combined with the others in a comprehensive manual.

6. County FAMIS users with certain combination of system access level can authorize vendors from other departments.

County users who have access to FAML 8060 screen – Table Authorization Mailbox with the 500 level access may authorize vendors from other departments. A management trail for an application system must provide a mechanism to identify the sequence of actions, the users that caused an event to occur, the result of the event, and the ability to reconstruct/reverse the event. To maintain the completeness of the separation of duties within a department, a FAMIS user should not be allowed to authorize vendors from another department.

The ability to approve vendors from other departments is a concern that circumvents the established departmental separation of duties. DOF was not aware that FAMIS users with certain system profile may access FAML 8060 to view and authorize vendors from other departments.

Recommendation

DOF should coordinate with DIT and submit a change management request to move FAMIS to CICSP2 and install the Hiperstation or equivalent software to monitor FAMIS user activities.

The transaction activities should capture both the user and system administration changes. A transaction activity report should be made available to the FAMIS Systems Administrators and their supervisor to monitor unauthorized changes and/or improper authorizations.

DOF should also submit a change management request to DIT to preclude FAMIS users from having the logical system access to authorize vendors initiated by other departments.

Department Response

DOF has submitted a change request to DIT to limit user access to unauthorized approval queues.

7. Current DOF documentation needs to be updated to guide departments to process vendors.

DOF has three documents regarding the procedures for vendor processing. The ATB (Accounting Technical Bulletin) 033 was developed January 1996, the OFN (Office Finance Notice) 019-1 was developed in May 1998 and the ATB 026 regarding the 1099 processing is not dated. The OFN 019-1 will be incorporated into the ATB 033. Suggestions for updating these documents were discussed with the DOF Policy Coordinator. DOF is actively working to update all ATBs. OFNs and the bulletins are currently available on the County's INFOWEB. There is a plan to include the ATBs on the INFOWEB in the near future.

Vendor documentation provides departments with guidelines for processing vendors, filing the appropriate IRS forms for different type of vendors (i.e. resident and non-residents), and provide information on 1099 reporting. Documentation should remain current and continue to be made available on-line or distributed after changes are made to give an up-to-date information to departments. Documentation update is usually a challenge for task and service oriented organizations to keep up with and stay abreast of changes.

Recommendation

DOF needs to update and prioritize the documents (i.e. ATB 026 and 033) that apply to vendor processing. Management and staff who are either assigned the responsibility or involved in the vendor process should continue to review the existing plan of action at least on a monthly basis to determine what needs to be added, changed, or deleted. Changes should be passed onto the DOF Policy Coordinator who will update the ATB and distribute to the departments within the timeframe agreed to by management.

Department Response

Regular meetings are scheduled to begin with the DIT training staff starting in September 2000. The training staff is aware of many issues that need to be clarified by the users and the manual update will be a joint effort.

Department of Housing and Community Development and Department of Purchasing & Supply Management. Recommendations (Items 8 & 9)

8. Department of Housing and Community Development, who has the final authority to approve vendors, has the system access capability to approve vendors from other departments.

Department of Housing has the authority to approve vendors without routing to DOF. DOF delegated this authority to Housing when problems emerged with FAMIS data conversion. Housing retains all original source documents (W9s, substitute forms, vendor's request to change addresses, etc.) in their department. Housing has 10 people initiating vendors and 5 people authorizing vendors. The initiators have 100 level system access capability to initiate only. The authorizers have 500 level system access to initiate and authorize; however, they only authorize the vendors. The 500 level access also allows a user to authorize vendors from other departments. This is not unique to the Housing department. Instead, this is a FAMIS logical access control weakness that applies to all

County users with the same access level. This is a major concern inasmuch as Housing has final approval of all vendors without routing through DOF. Standards in the GAO Federal Information System Controls Manual, (January 1999), states that access controls should provide reasonable assurance that computer data is protected against unauthorized modification, disclosure, loss, or impairment. System access controls should not be setup that exceeds the duties of an individual. Users' system access is based on the principle of the "need to know" and the "least possible privilege".

Users with 500 level system access can initiate and approve vendor information *within and outside* of their assigned department. For example, vendor payments could be redirected without anyone's knowledge and changed back to its original address. Open documents in FAMIS awaiting approval may be inadvertently routed to another address. The FAMIS system access level of 500 is currently setup to both initiate and authorize a transaction. FAMIS users are not restricted to their departments when processing vendor documents.

Recommendation

Housing needs to coordinate with DOF to modify the system access level of 500 to only authorize vendor documents. Housing should be restricted to vendor documents in their department. We also recommend that Housing work with DOF to route their final vendor approval thorough DOF until system modification can be made to preclude access to authorize vendor documents initiated from other departments.

Department Response

HCD will work closely with DOF to establish the security level changes recommended in the audit report. DOF has submitted a change request to DIT to limit user access to unauthorized approval queues.

9. Department of Purchasing and Supply Management (DPSM) has one primary individual initiating and approving vendor information in FAMIS. The original change of address request from the vendors is not forwarded to DOF for review and approval.

There are thirty-three (33) individuals in DPSM who can update the vendor file. DPSM has one individual adding and changing vendor information without additional supervisory approval. This individual has a 500 level system access to initiate and approve vendors in FAMIS. In addition, system access gives this individual the ability to approve vendors initiated from other departments. FAMIS routing is setup to have DOF make final approval of DPSM vendors. The original W9s are forwarded to DOF but the change of address requests from the vendors remains in DPSM. A vendor notepad is completed on-line by DPSM and routed to DOF for approval without forwarding the original source document from the vendor. Standards in the GAO Federal Information System Controls Manual, (January 1999), specify that the same individual should not be assigned the data entry and supervisory authorization duties.

One individual who can initiate and authorize vendor information without supervisory approval may be able to add a fictitious vendor or change existing vendor information in FAMIS without appropriate source document (W9 or substitute form). DPSM has one person to initiate and authorize vendors. In the past, DOF gave DPSM authority to approve vendors in their department

without routing through DOF. This authority was subsequently taken away but the user system access remained the same.

Recommendation

DPSM should coordinate with DOF to modify the system access level of the individual processing vendors from 500 to 100 level. This individual should only be allowed to initiate a vendor. Another person (backup) in DPSM should be tasked to authorize the vendor at a 500 level system access after proper training is received. Alternatively, DPSM may coordinate with DOF to send all original source documents (including the change of address requests from the vendor) to the primary Vendor Clerk in DOF precluding the need to change the individual's system access level of 500.

Department Response

DOF will delegate the same level of authority to DPSM that is currently given to Housing. DPSM will have two people authorize all vendor changes. One person will initiate vendor information at a level of 100 with the other approving at a level of 500. Changes will no longer have to be approved by DOF.